

Shell Offshore Inc.

An affiliate of Shell Oil Company



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VIA AIRBORNE EXPRESS

April 20, 1999

Minerals Management Service
Attn. Royalty Management Program, Rules and Publications Staff
Building 85, Room A613
Denver Federal Center
Denver, Colorado 80225



**SUBJECT: MMS NOTICE OF INFORMATION COLLECTION SOLICITATION
SUBMITTAL OF COMMENTS
FORM MMS-2014
64 FR 8835**

Dear Sir or Madam:

On behalf of Shell Exploration & Production Company and its exploration and production subsidiaries and affiliates, Shell Offshore Inc., Shell Deepwater Production Inc., Shell Deepwater Development Inc., and others (all referred to as Shell), we are pleased to respond to the Minerals Management Service's request for comments on the proposed changes to Form MMS-2014.

The comments are written following the format of the Federal Register notice on the proposed changes to Form MMS-2014.

Reporting Concepts

1) Elimination of the Form MMS-4025, Payor Information Form(PIF) – Shell fully supports the elimination of this form that currently identifies the type of payment to be reported to the MMS by a payor. All the data that was established by the PIF can be pulled from the Form MMS-2014 to populate the MMS responsibility for payment database. This will eliminate a major industry reporting burden.

There are two items the MMS will need to consider:

- 1) How will the MMS know who is responsible for payment?
- 2) Is the MMS planning on using the lessee-designee database to determine what payor is responsible for payment?

2) Product Valuation – Shell is adamantly against the introduction of a requirement to report a product valuation code on the proposed Form MMS-2014. This would cause a major reporting burden to industry for the following reasons:

- 1) Pool pricing for gas and commingling of oil would be impossible to report at a lease and/or agreement level. The molecules of gas and oil are not traceable back to the lease. The data to be able to report this code currently does not exist in industry's systems and there is no way to build a system that would have this data. Does the MMS have any suggestions as to how it would be done?
- 2) Marketing of the products changes month to month and even if a system could be built to track volumes back to the lease it would have to be quite extensive and would be very expensive to develop and maintain.
- 3) This would increase the number of reported lines on the Form MMS-2014 because each transaction would have to be broken out to the type of sale. Where one line is reported now a payor could potentially have to report six different lines of coding. An increase in the number of original reported lines would automatically cause an increase in the number of adjustment lines.
- 4) For integrated oil companies, a marketing affiliate is not necessarily required to provide sales data to the production company. A payor may not have access to the data being requested.
- 5) The data the MMS receives from various companies reporting using this valuation code will inherently be skewed. Each company will decide for itself how to report based on their interpretation of the six valuation codes and the resulting data the MMS receives from everyone will be useless for comparison purposes.

For example, some companies report using the price the E&P company receives for the product while others report using the price the marketing affiliate receives. Both companies would report using the non-arm's-length long term contract valuation code and the comparison of those two distinctly different transactions would be invalid. The MMS would have no way of knowing they were comparing an E&P price to a marketing affiliate price from the use of this product valuation code.
- 6) There are more sales situations than the three the MMS is proposing to use. Data will end up having to be lumped together for purposes of this report in an inappropriate category again causing invalid comparisons.
- 7) The use of this valuation code by the MMS will cause a greater audit burden on industry than we already bear because it will generate many questions to industry to resolve because of the ambiguity of the code.

8) The current proposed Form MMS-2014 has transportation and processing being reported on the same line as sales. There are potentially different relationship situations for the sales, transportation, and processing components of a transaction. How would a payor report this situation on one line?

Shell would be willing, if required, to report arm's-length sales from non-arm's-length sales because purchaser is carried in our system at a lease level and it would not be difficult to add a conversion table to our existing system to report that way. Shell believes that this is probably true for most, if not all, of industry.

Suggestion – As discussed in the meeting held in Denver on January 12, 1999 concerning the proposed Form MMS-2014, perhaps the MMS geographical audit teams could gather this valuation information outside of the 2014. The new geographical teams are supposed to have an in-depth knowledge of the area they are auditing and a “reasonable price” expected should be able to be obtained from other sources. In fact, Mr. Milton Dial of the MMS stated in the meeting that the MMS did have their own data to get this information.

3) Reporting Adjustments - Shell applauds the proposal to be able to report prior period adjustments on a “net” basis when key data elements are not being changed.

Shell only asks that edit checks are performed after all adjustments are taken into consideration. An example would be all adjustments would be considered before an AFS-PAAS comparison is made.

4) Transportation and Processing Allowance Deductions – Shell supports the transportation and processing allowance deductions being reported on the same line as volumes and values. It will help to reduce the number of lines reported.

However, as discussed under product valuation, it would be impossible to break transportation and processing down by valuation code to report. The data is not in the system and would require very extensive changes to the system at great cost even if it was possible to do so. This is just another reason to eliminate requiring a valuation code.

The MMS needs to consider how RIK payment method 04 and the associated transportation payment method 03 would be reported. There is not the capability on the proposed Form MMS-2014 to report two payment method codes.

Data Elements

By exclusion, if a data element is not mentioned Shell supports that element being required on the Form MMS-2014 and has no comment.

1) Indian Report Indicator – For paper reporting checking or not checking a block to indicate a Federal or Indian report is fine. However, for electronic reporting there will not be a block to check. How is that going to be handled?

- 2) API Well Number – Shell would like this element eliminated. As defined for the two uses in the Federal register, this element would not be a problem. Shell's concern is that if a field is available for use it will only be a matter of time before it is required for all sales.
- 3) API Gravity – Eliminate this element on the Form MMS-2014 as it is already provided on the production report Form MMS-4054-B.
- 4) Valuation Code – Eliminate this code for all the reasons presented under Reporting Concepts.
- 5) Transaction Code – The MMS needs to review the codes for elimination of some that are no longer in use.
- 6) Adjustment Reason Code - The MMS needs to review the codes for elimination of some that are no longer in use.
- 7) Royalty Rate – Eliminate requiring this data element to be reported. The MMS can calculate this as is done currently.
- 8) Unit Price - Eliminate requiring this data element to be reported. The MMS can calculate this as is done currently.

Note: With the elimination of Royalty Rate and Unit Price, Sales Value would need to be added for the MMS to be able to calculate those elements. Adding Sales Value would also add consistency to the Form MMS-2014. Currently, in the proposed format Sales Volume and Royalty Value are required and those two elements are not at the same reporting level. Having Sales Volume and Sales Value would accomplish having a volume and a value at the same level.

- 9) Payment Method – See the RIK reporting concern brought up under Reporting Concepts, Transportation and Processing Allowance Deductions.

Report Control Block

Shell wants to be able to put Bill Numbers in the Report Block that have lines on the Form MMS-2014. We need to have the capability to distinguish Bill Numbers included on the 2014. We want this capability in addition to the credits mentioned in the Federal Register. This is different from where the EFT amount is different from the report amount because we are paying additional money for some reason that the lines are not reported on the Form MMS-2014. For example, if Shell is paying an interest bill on the same wire transfer we are paying current month royalties on, then we just put the interest bill number in the wire transfer message.

Agreement Level Reporting

Shell cannot support Agreement Level Reporting. Reporting at an agreement level would potentially become a legal liability nightmare as to who was responsible for payment. Industry cannot rely on the allocation schedule in the MMS system to be updated timely.

Report Format and Presentation

For paper reporting, Shell prefers the 8 ½ X 14 inch landscape form.

Paperless Reporting

No comment.

Reporting Burden

Shell does not agree with the MMS's assessment of the reporting burden, particularly that the reporting burden will decrease. Shell believes that the reporting burden will increase for the following reasons:

- 1) The number of lines required to be reported will increase mainly due to the requirement of the valuation code. See the reasons under Product Valuation.
- 2) As the MMS states in the Federal Register the reporting burden per line may increase. This is most certainly true because of the additional data elements required on the proposed Form MMS-2014, again particularly the valuation code.

The number of lines increasing along with the burden per line increasing will result in an increased burden on industry to report. Elimination of the valuation code would put the burden back down to where it is currently.

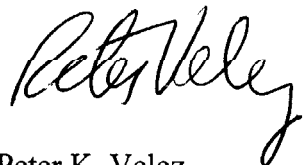
- 3) How did the MMS calculate the 7 minutes per line to manually complete one line on the Form MMS-2014 and the 2 minutes per line to electronically complete a line? This seems to be understated.

- 4) Elimination of the PIF does eliminate some burden on industry but not the full estimated 50 minutes. The data that goes on the PIF still needs to be gathered in order to report properly. It does not take 50 minutes to write the data on the form.

In conclusion for the Form MMS-2014, Shell requests that the valuation code be eliminated. The requirement of this code would add a great additional burden to industry when this data can be gathered elsewhere. Putting the valuation code aside, Shell can support all the other proposed changes to the Form MMS-2014.

We appreciate the opportunity to submit these comments. If you have any questions, please contact Pam Williams (281) 544-3149 or me at (504) 728-6982.

Sincerely,

A handwritten signature in black ink, appearing to read "Peter Velez". The signature is fluid and cursive, with the first name "Peter" and last name "Velez" clearly distinguishable.

Peter K. Velez
Manager Regulatory Affairs